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Property Tax Assessment Trends and Tax Implications

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Johnson, Bruce and Jansen, Jim A., "Property Tax Assessment Trends and Tax Implications" (2013). *Cornhusker Economics*. 661.
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CORNHUSKER ECONOMICS

UNIVERSITY OF
Nebraska
Lincoln

October 23, 2013

University of Nebraska–Lincoln Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
<http://agecon.unl.edu/cornhuskereconomics>

Property Tax Assessment Trends and Tax Implications

| Market Report | Yr Ago | 4 Wks Ago | 10/18/13 |
|--|-----------|--------------|----------|
| <u>Livestock and Products,</u> | | | |
| <u>Weekly Average</u> | | | |
| Nebraska Slaughter Steers, 35-65% Choice, Live Weight..... | \$126.72 | \$125.23 | \$ * |
| Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb..... | 162.21 | 183.84 | 189.12 |
| Nebraska Feeder Steers, Med. & Large Frame 750-800 lb..... | 146.00 | 161.01 | 169.19 |
| Choice Boxed Beef, 600-750 lb. Carcass..... | 195.65 | 192.94 | * |
| Western Corn Belt Base Hog Price Carcass, Negotiated..... | 81.99 | 94.94 | 91.26 |
| Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean..... | 88.24 | 97.80 | 95.26 |
| Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct..... | 92.38 | 125.18 | * |
| National Carcass Lamb Cutout, FOB..... | 306.48 | 280.82 | 300.48 |
| <u>Crops,</u> | | | |
| <u>Daily Spot Prices</u> | | | |
| Wheat, No. 1, H.W. Imperial, bu..... | 8.29 | 6.59 | 7.30 |
| Corn, No. 2, Yellow Nebraska City, bu..... | 7.56 | 4.86 | 4.26 |
| Soybeans, No. 1, Yellow Nebraska City, bu..... | 15.28 | 13.15 | 12.46 |
| Grain Sorghum, No. 2, Yellow Dorchester, cwt..... | 12.79 | 7.34 | 7.25 |
| Oats, No. 2, Heavy Minneapolis, MN, bu..... | 4.09 | 3.34 | 3.53 |
| <u>Feed</u> | | | |
| Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton..... | 237.50 | * | 250.00 |
| Alfalfa, Large Rounds, Good Platte Valley, ton..... | 215.00 | 140.00 | 145.00 |
| Grass Hay, Large Rounds, Good Nebraska, ton..... | 190.00 | 132.50 | 122.50 |
| Dried Distillers Grains, 10% Moisture, Nebraska Average..... | 280.00 | 215.75 | 205.00 |
| Wet Distillers Grains, 65-70% Moisture, Nebraska Average..... | 103.50 | 75.25 | 63.00 |
| *No Market | | | |

Sticker Shock probably could best describe Nebraska agricultural property owners' reaction when they opened the county assessor's letter and read the new 2013 valuation. With few exceptions, the assessed valuations on agricultural land have climbed rapidly for several years – a clear reflection of the fact that in Nebraska, agricultural land is assessed according to a set percentage of market value. With Nebraska being at the epicenter of a bullish United States agricultural land market in recent years, it is inevitable that those increases have come to bear on assessed values for property tax purposes.

But sticker shock may also be one's reaction to how the agricultural land assessment trends compare with valuation of other real estate classes that constitute the basis of our property tax system. Going back over ten years of data maintained by the Nebraska Department of Revenue, Property Assessment Division, we have tracked the agricultural land class share of total annual increase in assessed valuation for the entire state (Figure 1 on next page). A decade ago, the agricultural land share of annual increase in valuation was less than 25 percent. But starting in 2008, with the onset of a serious national recession, a dramatic shift occurred. Even though Nebraska was spared the full brunt of the recession, the state's residential and commercial/industrial real estate values were no longer rising and frequently were even declining in the market place. Moreover, new home construction and commercial property development slowed dramatically, meaning property improvements were not being added to the assessment roles at previous rates. Meanwhile, the agricultural industry and its associated real estate markets experienced a steady upward climb. By 2009, the agricultural land class accounted for 50 percent of the increase in total assessed valuation for the state, and that percentage has continued to rise ever since. Despite recent economic recovery and a returned growth of building in the residential and commercial real estate sectors, the



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agricultural land portion of the increase in total valuation from 2012 to 2013 was **87 percent** (this reflects the fact that while residential and recreational values climbed 1.6 percent and commercial and industrial valuation rose 3.5 percent, the state-wide increase in agricultural land was 22.8 percent).

Of course, those annual trends working through the county-by-county property assessment roles across the state have meant a significant shift in the agricultural land *share of the property tax assessment pie* (Figure 2). For the state as a whole, in 2008 the agricultural land slice of the total assessment pie was 22 percent. As of today, that slice has grown to be **33 percent** of total state property value, to which property taxes are levied.

With property taxes being levied for local government purposes, the ultimate tax implications occur at the local level. So the agricultural land share of county property value assessment is the critical point. Figure 3 (on next page) indicates the agricultural land percentage share of 2013 real property assessments. In 66 of the state's 93 counties, the agricultural land base represents at least 50 percent of the assessed value; and in many counties, that share is far greater.

As the Nebraska Legislature's Tax Modernization Committee proceeds through its review process this fall, it will be well for all involved to thoughtfully consider the following:

- The agricultural sector is not only the engine of our rural economies, but it is also the *heavy lifter* of local government services.
- Agriculture's share of the property tax load has significantly increased in recent years.
- Any tax reform measures to rebalance Nebraska's tax system **must** pay critical attention to property taxation at the local levels of government, and particularly to the tax burden carried by the agricultural community.

FIGURE 1: AG LAND VALUATION AS PERCENTAGE TO TOTAL ANNUAL CHANGE IN ASSESSED VALUE IN NEBRASKA: 2004 TO 2013

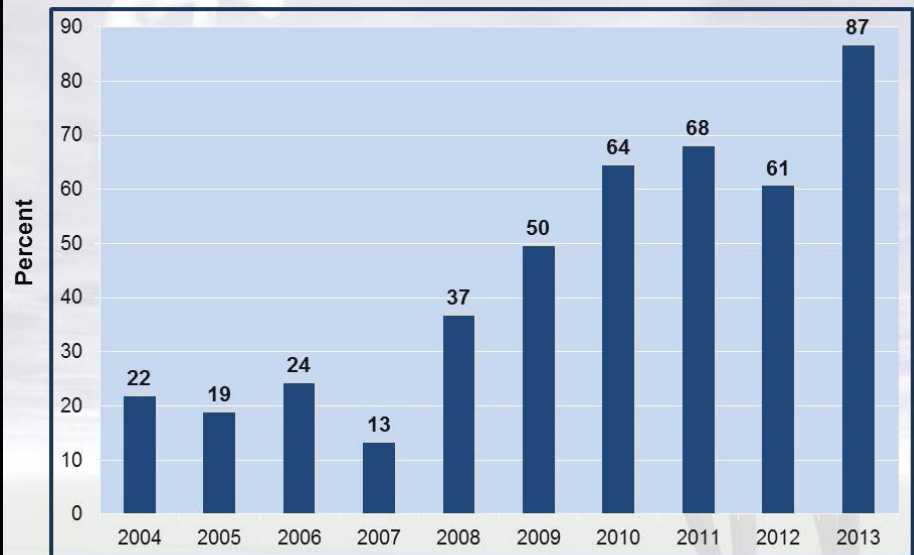
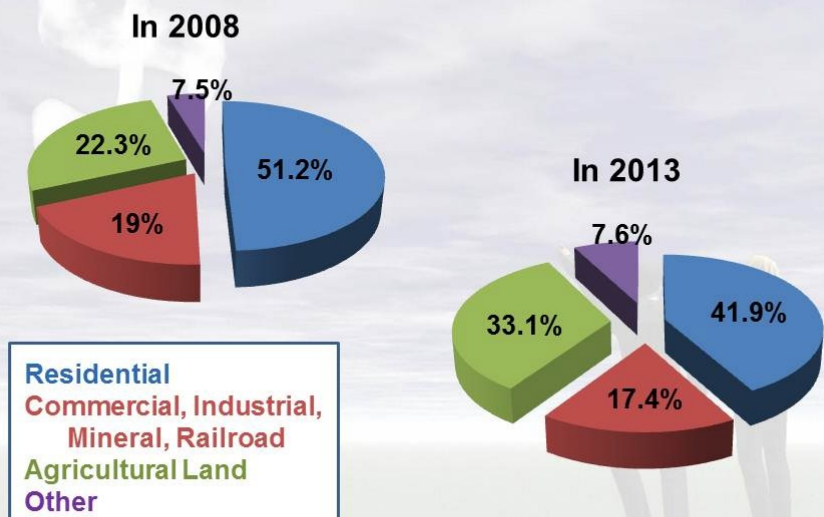


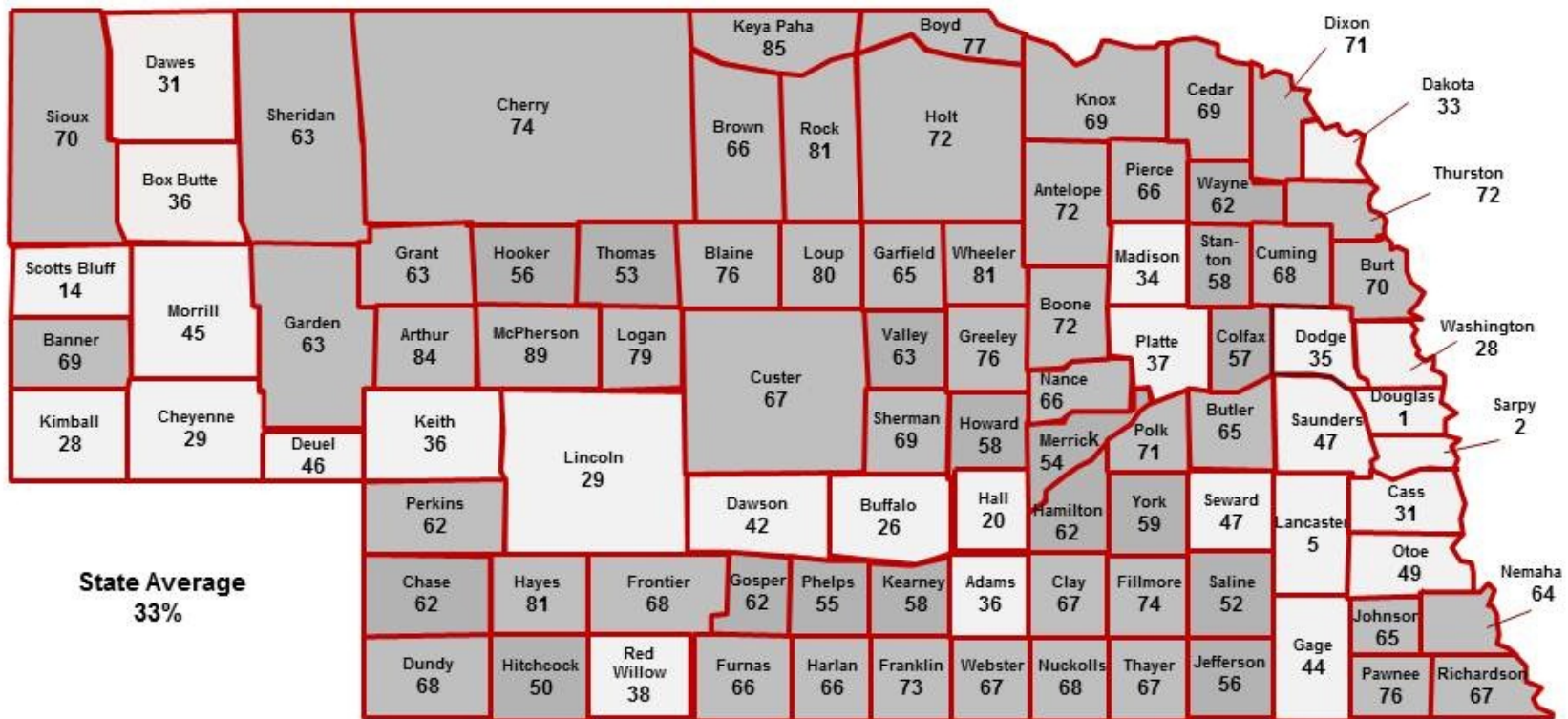
FIGURE 2: DISTRIBUTION OF ASSESSED VALUE BY PROPERTY CLASS IN NEBRASKA



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**FIGURE 3: AG LAND AS A PERCENT OF TOTAL
PROPERTY ASSESSED VALUE, 2013**



Shaded Counties Ag Land Portion \geq 50% Total Assessed Value

Source: Nebraska Department of Revenue, Property Assessment Division: 2013 Annual Report and Updated Releases